

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 23, 2014, MEETING**

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Lonny Mertz, Vice Chair
Mike Gessner, TFFR Board/Liaison to the SIB
Mike Sandal, PERS Board
Cindy Ternes, Workforce Safety & Insurance

STAFF PRESENT: Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assistant to the Audit Committee
David Hunter, Executive Director/CIO
Fay Kopp, Deputy Executive Director/CRO
Shelly Schumacher, Retirement Program Manager
Dottie Thorsen, Internal Auditor

OTHERS: Jason Ostroski, CliftonLarsonAllen

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, May 23, 2014, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 23, 2014, MEETING AS DISTRIBUTED.

AYES: MR. SANDAL, MS. TERNES, MR. MERTZ, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

MINUTES:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE FEBRUARY 28, 2014, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MR. MERTZ, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

AUDIT SCOPE:

Mr. Ostroski reviewed the engagement scope for the audit of the Retirement and Investment Office's (RIO) financial statements as of June 30, 2014. The critical areas CliftonLarsonAllen would be focusing on would be investments, contributions, benefit payments, and actuarial data. The final audit report is scheduled to be completed September/October 2014.

Mr. Ostroski also reviewed GASB Statement 67 financial reporting for pension plans which goes into effect fiscal year end June 30, 2014, Statement 68 accounting and financial reporting for pensions which goes into effect fiscal year end June 30, 2015, and Statement 71 which provides additional transition guidance.

GASB 67/68 IMPLEMENTATION:

Ms. Kopp updated the Audit Committee on RIO's plans for implementation of the new pension reporting standards, GASB Statements No. 67 and No. 68. RIO staff in conjunction with the Public Employees Retirement System (PERS) and State Auditor's Office have developed a plan which includes the following: educate stakeholders and participating employers; develop the necessary information for RIO/Teachers' Fund for Retirement (TFFR) financial statements, and the information which will be sent to participating employers for inclusion in employer financial statements; and integrate this effort into the ongoing operations of the plan going forward. Ms. Kopp will continue to keep the Audit Committee apprised of developments.

EXECUTIVE LIMITATIONS AUDIT:

Mr. Hunter stated the Executive Limitation's review procedures will be compiled on an interim basis during mid-2014 with audit procedures for the period ending December 31, 2014 targeted for completion during early-2015. Mr. Hunter would like to survey the State Investment Board (SIB) clients six months into his appointment as Executive Director/CIO to receive feedback on how RIO as a whole is functioning as far as meeting client's needs and expectations. The information will be compiled and shared with the Audit Committee.

AUDIT SUPERVISOR:

Mr. Hunter updated the Audit Committee on the status of filling the Audit Supervisor position of RIO. The position has been vacant since July 13, 2013, and the position has been posted three times on the state HRMS website and twice in the state's four major newspapers. Within that time period, two qualified applicants were determined by HRMS. One applicant withdrew their application and staff conducted a phone interview with the second applicant and determined the candidate did not possess the depth of audit experience needed for the position.

Mr. Hunter, Ms. Dorwart, and Ms. Kopp suggested that it may be in the best interest of RIO, SIB, and its clients to reconsider the duties and responsibilities of the position and possibly upgrade the position to an Auditor IV (Grade N) instead of the prior Auditor III (Grade L). This reclassification would be justified by the growth in client assets under management by the SIB which would require a higher level of responsibility and work.

Mr. Hunter requested approval from the Audit Committee to work with HRMS to possibly reclassify the Audit Supervisor position and repost the position and work towards filling the position the third quarter of 2014.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED BY A VOICE VOTE TO ACCEPT STAFF RECOMMENDATION TO WORK WITH HRMS SERVICES TO RECLASSIFY THE AUDIT SUPERVISOR POSITION.

AYES: MS. TERNES, MR. MERTZ, MR. SANDAL, MR. GESSNER, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

AUDIT ACTIVITIES REPORT:

Ms. Thorsen reviewed internal audit activities from January 1 - March 31, 2014, period.

To date, 20 audits have been completed, two audits and two not in compliance reviews are in progress, and six notifications are ready to go. There are 41 districts left to audit in the current cycle.

Ms. Thorsen also completed the File Maintenance Audit. One exception was noted.

The Audit Committee also reviewed budgeted hours for the period ending March 31, 2014.

The Audit Committee thanked Ms. Thorsen for her willingness to work with them through the transition while striving towards meeting her goals established in the 2013-14 work plan.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1 - MARCH 31, 2014.

AYES: MR. GESSNER, MR. MERTZ, MR. SANDAL, MS. TERNES, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

WORK PLAN:

The Audit Committee work plan for 2014-15 was tabled until the Audit Supervisor position is filled in order to give that individual an opportunity to determine the areas that should be included in the audit plan.

MEETING SCHEDULE:

The Audit Committee reviewed a 2014-15 meeting schedule which reflected four regular meetings per year.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER TO ACCEPT THE 2014-15 AUDIT COMMITTEE MEETING SCHEDULE.

AYES: MR. SANDAL, MS. TERNES, MR. MERTZ, MR. GESSNER, AND MS. DORWART.

NAYS: NONE

MOTION CARRIED

OTHER:

The next Audit Committee meeting is scheduled for September 26, 2014, at 1:00 p.m. at the State Capitol, Peace Garden Room.

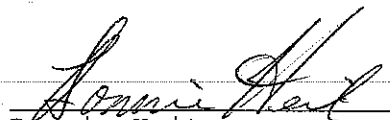
ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 2:38 p.m.

Respectfully Submitted:



Ms. Rebecca Dorwart, Chair
SIB Audit Committee



Bonnie Heit
Assistant to the Audit Committee